

CIMA

Automation 25 -

Illustration2

For exams in 2021

Principles of Taxation

The Institute of Chartered Accountants in England
and Wales

ISBN: 978-1-5097-3367-5

Previous ISBN: 978-1-5097-2680-6

First edition 2007

Fifteenth edition 2020

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, graphic, electronic or mechanical including photocopying, recording, scanning or otherwise, without the prior written permission of the publisher.

The content of this publication is intended to prepare students for the ICAEW examinations, and should not be used as professional advice.

British Library Cataloguing-in-Publication Data

A catalogue record for this book is available from the British Library.

Contains public sector information licensed under the Open Government Licence v3.0

Originally printed in the United Kingdom on paper obtained from traceable, sustainable sources.

The publishers are grateful to the IASB for permission to reproduce extracts from the International Financial Reporting Standards including all International Accounting Standards, SIC and IFRIC Interpretations (the Standards). The Standards together with their accompanying documents are issued by:

The International Accounting Standards Board (IASB)

30 Cannon Street, London, EC4M 6XH, United Kingdom.

Email: info@ifrs.org Web: www.ifrs.org

Disclaimer: The IASB, the International Financial Reporting Standards (IFRS) Foundation, the authors and the publishers do not accept responsibility for any loss caused by acting or refraining from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise to the maximum extent permitted by law.

Copyright © IFRS Foundation

All rights reserved. Reproduction and use rights are strictly limited. No part of this publication may be translated, reprinted or reproduced or utilised in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or in any information storage and retrieval system, without prior permission in writing from the IFRS Foundation. Contact the IFRS Foundation for further details.

The IFRS Foundation logo, the IASB logo, the IFRS for SMEs logo, the 'Hexagon Device', 'IFRS Foundation', 'elFRS', 'IAS', 'IASB', 'IFRS for SMEs', 'IASs', 'IFRS', 'IFRSs', 'International Accounting Standards' and 'International Financial Reporting Standards', 'IFRIC', 'SIC' and 'IFRS Taxonomy' are **Trade Marks** of the IFRS Foundation.

Further details of the Trade Marks including details of countries where the Trade Marks are registered or applied for are available from the Licensor on request.

Contents

Introduction

Exam	vi
Professional skills	vii

1 BPP-9456: ACCA - Illustrations QnAs - Regression test file (2)	1
Appendix 1: Formulae, ratios and mathematical tables	9

Exam

This exam is 1.5 hours long and 55 of the available 100 marks are required to pass the exam. 20% of the marks are allocated to two scenario-based questions. These will each cover a single syllabus area: income tax and NIC, and corporation tax. The remaining 80% of the marks are from 40 objective test questions.

The objective test questions are of the following types:

- **Multiple-choice** – select 1 from 4 or 5 options A to D or A to E (see Chapter 1 Q1)
- **Multi-part multiple choice** – two or more multiple-choice questions, each requiring selection from 2 or 3 options (see Chapter 1 Q2)
- **Multiple-response** – select 2 or more responses from 4 or more options (see Chapter 1 Q3)
- **Numeric entry** – enter a figure in a data entry field (see Chapter 3 Q1)

In this Question Bank you will select only one option per question unless told otherwise.

Our website has the latest information, guidance and exclusive resources to help you prepare for this exam. Find everything you need, from exam webinars, sample exams, errata sheets and the syllabus to examiner- and tutor-written articles at icaew.com/examresources if you are studying the ACA and icaew.com/cfabstudents if you are studying ICAEW CFAB.

Professional skills

Professional skills are essential to accountancy and your development of them is embedded throughout the ACA qualification. The level of competency in each of the professional skills areas required to pass each module exam increases as ACA trainees progress upwards through each Level of the ACA qualification.

The professional skills embedded throughout this Question Bank provide the opportunity to develop the knowledge and professional skills required to successfully pass the exam for this module.

During your question practice, remain mindful that you should be demonstrating each of the four professional skills within your answers. You are advised to familiarise yourself with the full ACA professional skills development grids which can be found at icaew.com/examresources.

The following advice will help you demonstrate each of the professional skills when completing your answers to questions in this Question Bank.

Questions in the Principles of Tax module vary significantly in content and style, as they test a broad syllabus in both narrative and discursive ways. You will be required to apply your knowledge of the various taxes to different scenarios and switch between taxes for each different question. Below are the key skills required in the Principles of Tax exam that you will need to master.

!! Error resolving referred content !!

The Principles of Tax exam requires you to attempt 40 objective test questions and two scenario-based questions in 90 minutes. You must be able to correctly identify which area of the syllabus is being tested and draw out the key facts from the scenario to the correctly answer each question. Being disciplined, reading both the scenario and the requirement carefully and keeping track of time will mean that you work effectively within time constraints which should offer you the best chance of passing.

!! Error resolving referred content !!

Each scenario will be different, so you need to practise a wide variety of questions in order to be able to identify and apply relevant technical knowledge and skills to analyse a specific problem. You need to ensure that you can complete computational objective test questions quickly and efficiently, so make sure you learn the relevant pro-forma computations, for example for capital allowances and each of the taxable benefits.

!! Error resolving referred content !!

You should get used to analysing your performance in the questions you attempt in order to ensure you understand why the correct answer is indeed correct. This will help you to identify relevant information from the scenario the next time you attempt questions from the same area so that you are prepared for the exam.

!! Error resolving referred content !!

This skill is not examinable in the Principles of Tax exam apart from communicating in a format prescribed by the examiner in the scenario-based questions. At this stage of your taxation studies you will not be required to make recommendations to taxpayers.



BPP-9456: ACCA - Illustrations QnAs - Regression test file (2)

1 Test scenarios

1.1 Questions without debrief



Illustration 1: Question (no debrief)

This is the question scenario. This question does not have any text in the debrief.

Required

This is the question requirement. This question does not have any text in the debrief.

- (a) This is the first sub-question scenario.

Required

This is the first sub-question requirement.

- (b) This is the second sub-question requirement.

Solution

- (a) This is the first sub-question debrief.
(b) This is the second sub-question debrief.
-



Illustration 2: Question 1 (no debrief), question 2 (debrief)

- 1 This is the first question scenario. This question does not have any text in the debrief.

Required

This is the first question requirement. This question does not have any text in the debrief.

- (a) This is the first sub-question requirement.
(b) This is the second sub-question requirement.

- 2 This is the second question scenario.

Required

This is the second question requirement.

Solution

- 1 (a) This is the first sub-question debrief
(b) This is the second sub-question debrief

- 2 This is the second question debrief.
-



Illustration 3: Question 1 (debrief), question 2 (no debrief)

- 1 This is the first question scenario.

Required

This is the first question requirement.

- (a) This is the first sub-question requirement.
- (b) This is the second sub-question requirement.

- 2 This is the second question scenario. This question does not have any text in the debrief.

Required

This is the second question requirement. This question does not have any text in the debrief.

- (a) This is the third sub-question requirement. Known issue: for question numbers greater than 1, the sub-question numbering will be slightly misaligned.
- (b) This is the fourth sub-question requirement.

Solution

- 1 This is the first question debrief.
- (a) This is the first sub-question debrief
 - (b) This is the second sub-question debrief.
- 2 (a) This is the third sub-question debrief.
- (b) This is the fourth sub-question debrief
-



Illustration 4: Question 1 and sub-questions (no debrief), question 2 (debrief) - AMENDED

- 1 This is the first question scenario. This question does not have any text in the debrief.

Required

This is the first question requirement. This question does not have any text in the debrief.

- (a) This is the first sub-question requirement.
- (b) This is the second sub-question requirement.

- 2 This is the second question scenario.

Required

This is the second question requirement.

Solution

- 1 (a) This is the first sub-question debrief - **newly authored.**
- (b) This is the second sub-question debrief - **newly authored.**
- 2 This is the second question debrief.
-

1.2 Illustrations with tables



Illustration 5: QnAs with one question with tables

Table header	Table header
Table text	Table text

This is text in the question scenario, authored underneath the table.

Required

This is the question requirement.

Table header	Table header
Table text	Table text

(a)

Table header	Table header
Table text	Table text

This is text in the first sub-question scenario, authored underneath the table.

Required

This is the first sub-question requirement.

(b) This is the second sub-question requirement.

Table header	Table header
Table text	Table text

Solution

Table header	Table header
Table text	Table text

This is text in the question debrief, authored underneath the table.

(a)

Table header	Table header
Table text	Table text

(b) This is the second sub-question debrief.

Table header	Table header
Table text	Table text

Illustration 6: QnAs with more than one question with tables

1

Table header	Table header
Table text	Table text

This is text in the first question scenario, authored underneath the table.

Required

This is the first question requirement.

Table header	Table header
Table text	Table text

(a)

Table header	Table header
Table text	Table text

This is text in the first sub-question scenario, authored underneath the table.

Required

This is the first sub-question requirement.

(b) This is the second sub-question requirement.

Table header	Table header
Table text	Table text

2 This is the second question requirement.

Solution

1

Table header	Table header
Table text	Table text

This is text in the first question debrief, authored underneath the table.

(a)

Table header	Table header
Table text	Table text

This is text in the first sub-question debrief, authored underneath the table.

(b) This is the second sub-question debrief

Table header	Table header
Table text	Table text

2 This is the second question debrief.

Table header	Table header
Table text	Table text

1.3 Illustrations with lists



Illustration 7: QnAs with one question with lists - AMENDED

This is a line of body text in the question scenario - **newly authored**.

- This is a list in the question scenario
- Bullet point

Required

This is the question requirement.

- Bullet point
- Bullet point

(a) This is a line of body text in the sub-question scenario - **newly authored**.

- This is a list in the sub-question scenario
- Bullet point

Required

This is the first sub-question requirement.

(b) This is the second sub-question requirement.

- Bullet point
- Bullet point

Solution

This is the question debrief.

- (a) This is the first sub-question debrief.
- (b) This is the second sub-question debrief.



Illustration 8: QnAs with more than one question with lists - AMENDED

1 This is a line of body text in the question scenario - **newly authored**.

- This is a list in the first question scenario
- Bullet point

Required

This is the first question requirement.

- Bullet point
- Bullet point

(a) This is a line of body text in the question scenario - **newly authored**.

- This is a list in the first sub-question scenario
- Bullet point

Required

This is the first sub-question requirement.

- Bullet point
 - Bullet point
- (b) This is the second sub-question requirement.
- 2 This is the second question requirement.

Solution

- 1 This is the first question debrief.
- (a) This is the first sub-question debrief
- (b) This is the second sub-question debrief
- 2 This is the second question debrief.
-

1.4 Illustrations with images



Illustration 9: QnAs with one question with images

EPS image



This is the text in the question scenario, authored underneath the image.

Required

This is the question requirement.

JPG image



(a)

EPS image



This is text in the first sub-question scenario, authored underneath the image.

Required

This is the first sub-question requirement.

(b) This is the second sub-question requirement.

JPG image



Solution

Test image



This is the text in the question debrief, authored underneath the image.

(a)

EPS image



This is text in the first sub-question debrief, authored underneath the image.

(b) This is the second sub-question debrief.

EPS image

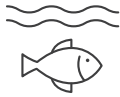
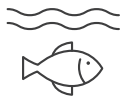


Illustration 10: QnAs with more than one question with images

1

EPS image

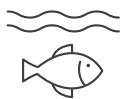


This is text in the first question scenario, authored underneath the image.

Required

This is the first question requirement.

EPS image



(a)

EPS image



This is text in the first sub-question scenario, authored underneath the image.

Required

This is the first sub-question requirement.

- (b) This is the second sub-question requirement.



- 2 This is the second question requirement.

Solution

1



This is text in the first question debrief, authored underneath the image.

- (a)




This is text in the first sub-question debrief, authored underneath the image.

- (b) This is the second sub-question debrief

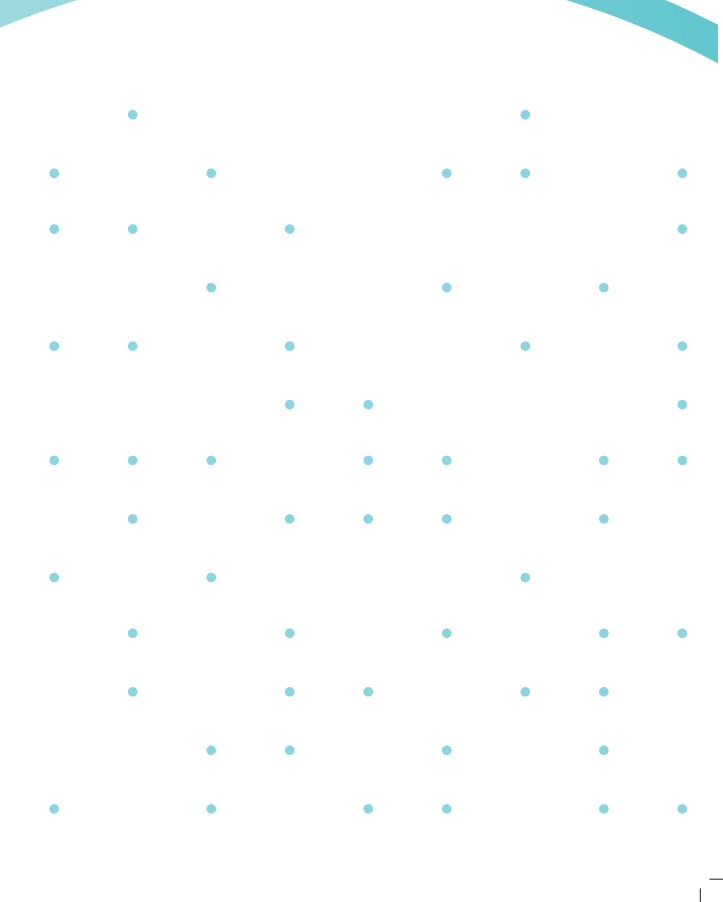


- 2 This is the second question debrief.





Appendix 1: Formulae, ratios and mathematical tables



Appendices

Appendix A: Formulae and ratios that you need to learn

Profitability ratios:

$$\text{ROCE} = \frac{\text{Profit from operations (before interest and tax)}}{\text{Capital employed}}$$

Debt ratios include:

$$\text{Gearing} = \frac{\text{Value of debt}}{\text{Value of equity (or debt + equity)}}$$

$$\text{Interest cover} = \frac{\text{Profit from operations}}{\text{Interest}}$$

Liquidity ratios:

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Shareholder investor ratios include:

$$\text{Dividend yield} = \frac{\text{Dividend per share}}{\text{Share price}} \times 100$$

$$\text{Earnings per share (EPS)} = \frac{\text{Profits after tax - preference dividend}}{\text{Number of ordinary shares}}$$

$$\text{Price to earnings ratio (P/E)} = \frac{\text{Share price}}{\text{EPS}}$$

Working capital ratios

Operating cycle = inventory days + receivable days – payables days

Inventory days = inventory/cost of sales × 365

Receivables days = trade receivables/(credit) sales × 365

Payables days = trade payables/(credit) purchases × 365

Sales to net working capital ratio = sales/net working capital (excl cash)

Cost of capital formulae:

$$K_d = \frac{I(1 - t)}{P_0}$$

$$K_p = \frac{d}{p}$$

Other useful formulae to learn:

$$IRR = a\% + \left[\frac{NPV_a}{NPV_a - NPV_b} \times (b\% - a\%) \right]$$

$$\text{Total shareholder return} = \frac{\text{dividend gain} + \text{capital}}{\text{share price at start year}}$$

$$EAC = \frac{\text{NPV of costs}}{\text{Annuity factor for life of the project}}$$

$$\text{Profitability index} = \frac{\text{Present value of cash inflows (or NPV of the project)}}{\text{Present value of cash outflows}}$$

Appendix B: Mathematical tables

Present Value Table

Annuity Table

Formula Sheet

Economic Order Quantity

$$= \sqrt{\frac{2C_oD}{C_H}}$$

Miller-Orr Model

$$\text{Return point} = \text{Lower limit} + \left(\frac{1}{3} \times \text{spread}\right)$$

$$\text{Spread} = 3 \sqrt[3]{\frac{\frac{3}{4} \times \text{transaction cost} \times \text{variance of cash flows}}{\text{Interest rate}}}$$

The Capital Asset Pricing Model

$$E(n) = R_f + \beta_i(E(r_m) - R_f)$$

The asset beta formula

$$\beta_a = \left[\frac{V_e}{(V_e + V_d(1-T))} \beta_e \right] + \left[\frac{V_d(1-T)}{(V_e + V_d(1-T))} \beta_d \right]$$

The Growth Model

$$P_0 = \frac{D_0(1+g)}{(r_e - g)} \quad r_e = \frac{D_0(1+g)}{P_0} + g$$

Gordon's Growth Approximation

$$g = br$$

The weighted average cost of capital

$$\text{WACC} = \left[\frac{V_e}{V_e + V_d} \right] k_e + \left[\frac{V_d}{V_e + V_d} \right] k_d(1 - T)$$

The Fisher formula

$$(1 + i) = (1 + r)(1 + h)$$

Purchasing Power Parity and Interest Rate Parity

$$S_1 = S_0 \times \frac{(1 + h_c)}{(1 + h_b)} \times \frac{(1 + i_c)}{(1 + i_b)} \quad F_0 = S_0$$

*****THE DOCUMENT HAS ERRORS*****

1. Error Code: -43 - File not found. 0425 IFRS logo.tif
2. Error Code: -43 - File not found. 0424 Present Value Table.eps
3. Error Code: -43 - File not found. 0420 Annuity Table.eps

